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# Ceemet Economic Outlook 2023/2024

## Policy recommendations

1. Policy makers must get inflation under control. The ECB must find the right balance to have interest rates which lower inflation but do not adversely affect businesses activities and investments.
2. Long term energy policies must be reviewed. There should be less dependence on gas. Furthermore, we must ensure that economies have a diverse energy mix which takes into account both energy supply security and sustainability. Furthermore, we must ensure a market-based electricity model. We need better infrastructure across the EU with digital solutions for demand elasticity and a market that drives investments to clean energy.
3. The better functioning of supply chains must be ensured. This can be facilitated by the European Commission prioritising free trade agreements with like-minded countries.
4. The current vacancy rate in the MET sector is at approximately 360,000, this is over 2% of employment. In this context, better matching of jobs with the labour market and targeted labour activation policies are necessary to close this gap. Furthermore, we must put in place legal migration policies that work, both internally within the EU and externally for third countries.
5. We must improve the attractiveness of the EU as a place to do business. Too much regulation can reduce the possibility of companies to do business, decrease competition, investment and generally slow the whole economy. Legislators must break down the barriers to European companies, and their workers, operating across borders.

## 1. Introduction

The business outlook has been characterised by a period of severe instability, and it is currently unclear where the economy is going to land in the short-term. Admittedly, extreme price fluctuations are having a negative impact on companies' future planning. Indeed, we have seen a smaller than expected contraction in the European economy in the first two quarters of 2023 with most countries avoiding recession. However, this was mainly due to the easing of supply chain bottlenecks and these positive catch-up effects are running out. The possibility of a perilous economic situation prevails, with multiple downside risks. Some countries are now entering recession, with inflation likely to persist for the second half of 2023 and into 2024. Therefore, the economic outlook can be described as bleak.

Where economic growth exists, it is meagre. In the sub-sectors of the MET industries growth remains subdued with some of the current challenges not helping the scenario for investment and innovation. The automotive sector has reached the lowest point in the business cycle but is now beginning to recover. Yet, with electronics presented with supply chain issues, many of the sectors using these electronics are suffering: machinery and automotive, to name a few.

Growth in the metals sector is a mix bag for the moment mainly due to price fluctuations. Higher prices closed production lines in 2022 and it is not at all certain that they will re-open again. The outlook has changed considerably for this sector in recent months. With energy price increases, we could see production figures remain, but profitability decline.

Currently order books are relatively full in some countries, however the situation is increasingly diverse and orders are decreasing steadily. Related to investment levels, machinery and mechanical products are not performing well and it is possible to foresee some years of low growth in these sectors. In relation to the electronics sector, supply chain challenges persist which are making it difficult for companies to produce.

Higher interest rates for borrowing are also being felt across the economy. While restrictive monetary policy is required, it exposes companies who have borrowed to invest and innovate. We must make it easier and more attractive for companies to invest in the EU and this is particularly true in light of the massive investments which companies must make to realise the green and digital transitions.

Having said all this, it is crucial to remember that European manufacturing has inherent strengths and companies within the MET sector are, first and foremost, entrepreneurs and innovators who adapt to difficult economic scenarios. It is this resilience which propels us forward to a prosperous future for both employers and the high quality jobs they provide.

## 2. Inflation

### a. Current scenario in relation to the rate of inflation

Headline inflation in the EU is projected to increase slightly in 2024 with further decreases foreseen in 2025, hopefully returning to around 2%. The current figures show a decrease from 5.9% in August 2023 to 4.9% in September 2023. Despite the fact that inflation peaked last autumn at over 10% and is now at around 5%, the current rate of change in inflation is a worrying dynamic. Policymakers must continue to fight inflation such as by the tighter monetary policy put in place by the ECB and endeavouring to reduce supply chain bottlenecks. In addition, core inflation has already risen sharply, which is a sign that a wage-price spiral has begun.

### b. Persistently too high inflation

Yet inflation remains too high and this is affecting companies bottom lines. When inflation remains too high, multiple aspects of companies operations become more expensive and the effects of this are more acute for SMEs. Not only is this felt directly via higher prices being paid for inputs, this is also indirectly felt via the reduction in consumer’s purchasing power. A further direct effect on companies is that trade unions demand higher wages at a time when companies can afford them least.

Continued inflation in Europe means our competitiveness vis-à-vis international competitors will be eroded. Businesses who have invested could be punished by higher interest rates. Such challenges have forced MET companies, in many instances, to assess their operations in order to optimise efficiencies. Furthermore, we have no concrete timeframe on when policy makers will bring inflation back to the 2% target of the ECB. Moreover, core inflation remains high due to a multitude of factors, one of which being wage-price spiral.

## 3. Energy prices

### a. Current scenario

While it appears that the worst-case scenario for the energy crisis, at least in the short-term, has not materialized, the situation remains unchanged in terms of uncertainty and risk. This is borne out by the concerns raised by the International Energy Agency regarding possible increases in the coming months. Due to the warm winter of 2022/2023, there was a considerable drop in energy consumption in Europe at that time. However, this was a meteorological outlier, highly unlikely to be replicated in the near future and therefore cannot be relied on again to lower prices. In addition, there was a reduction in energy consumption in industry, partly as a result of plant shutdowns.

### b. Diversification of energy supply

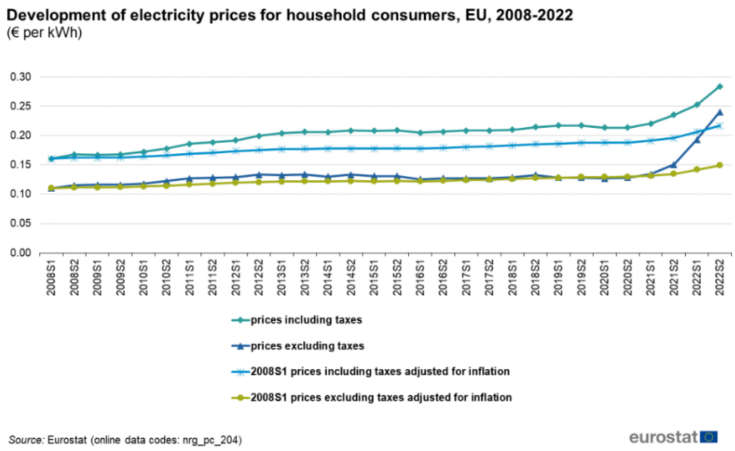
The diversification away from, in the case of some countries, an over reliance on one supplier should, in the long-term, give more security to EU manufacturing. More broadly, this will strengthen the strategic autonomy of the EU. Initiatives from the European Commission, such as REPowerEU, have been fundamental to this rebalancing.

Yet policymakers should be conscious that this has knock on effects for manufacturing companies with higher prices in the short-term. However, this is somewhat offset by the fact that, as global outlook remains relatively fragile, demand for oil is also subdued. Furthermore, if consumption in the EU remains low and the predicted economic rebound in China does not materialise, this may have a positive impact on some energy prices. Analysts were expecting an economic rebound in the world's second largest economy after their lifting of COVID-19 measures. However, as of now, this hasn't been as robust as expected. What might normally be seen as a drag on economic growth may keep energy prices lower than they normally would have been. A combination of falling wholesale energy prices and schemes which supported businesses through the crisis have helped to weather the storm. However, we cannot say that we are out of the woods yet, not even close. The question policymakers should be asking themselves is how we will revert to pre-war prices.

### c. Falling energy prices but still far above long-term average

What is clear, despite the reduction in prices recently, is that we are facing considerably higher energy costs than our competitors. This is evident when we look to international competitors such as the US, where the cost of energy is considerably lower than what we are paying in Europe. This is in its essence a competitiveness issue and is a long-term threat to manufacturing in Europe. Furthermore, with no foreseeable method of bringing prices back to their historical average, we are seeing a shift in the production costs on which business models have been based for years.

The graph shows the long-term average development of electricity prices for household consumers. We can see a spike which began in 2022 following the Russian war of aggression in Ukraine. This spike also hit manufacturers hard and projections, while positive in the short term, could change in the longer term outlook.




The war in Ukraine has fundamentally changed the way energy is consumed by European businesses. Going forward, the reality is that the cost of energy for companies is going to increase. As Europe's shift away from Russian gas becomes permanent, the EU will have to compete with the rest of the world for Liquified Natural Gas on global markets.

## 4. International supply and value chains

### a. Current scenario

The improved functioning of MET supply chains has led to an improved processing of order backlogs, allowing improvements in the sales and production within MET companies. This is particularly noticeable in the easing of pent-up order backlog in the automotive industry, where production recovered. Across the whole of the MET sector, the gaps between order intake and production are largely closing. Furthermore, we have seen an increase in capacity utilisation due to stabilised supply chains.

Therefore, it would appear that, in many sectors, supply chain disruption may be easing substantially for the first time in some years, following the high degree of supply chain disruption that persisted in the recent past. Thankfully, this easement in supply chains has allowed MET companies to deliver finished goods at a higher rate than they are ordering inputs and components. On the other hand, a significant slump in orders can be observed as a result of the weak global economic development, dampening the outlook for 2024.

### b. China’s post-pandemic re-emergence

Despite a number of years being closed to the world, we now see China’s post-pandemic re-emergence, which should help to break down a number of barriers to growth. After many months of this re-emergence, we now see some clear trends. While it is increasingly evident that the expectations in relation to China’s post pandemic economic recovery have been exaggerated, there is no question that this will certainly further help stabilising of supply chains.

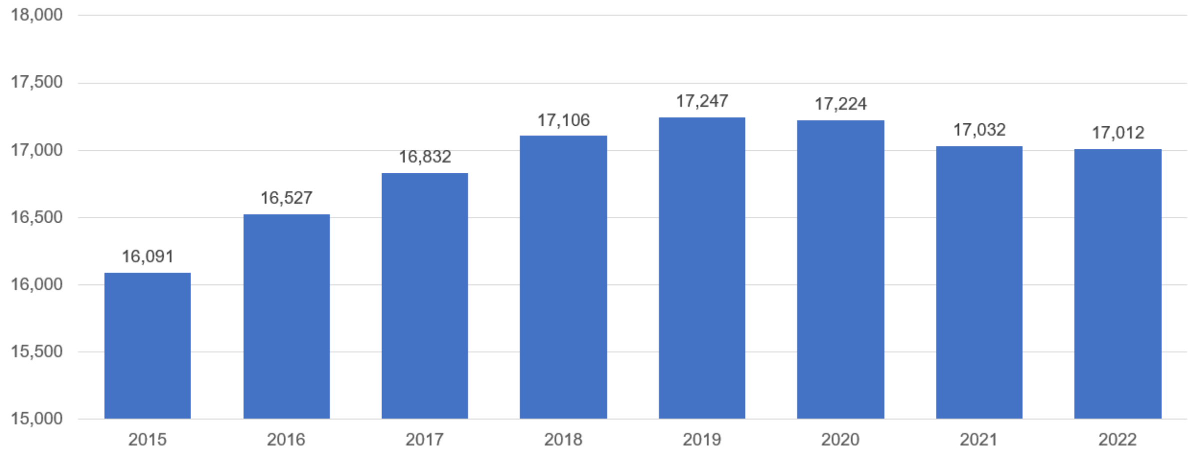
### c. Continuing issues from supply chain problems

The COVID-19 pandemic highlighted some of the weaknesses in the manufacturing models which have been created as a result of globalisation. Lower cost, more varied choice and other benefits were replaced by supply chain disruptions and order backlogs.

This holds particularly true when we speak about the over-reliance on Asia for materials and production capacity. For the first time, this became a disadvantage to manufacturing, as highlighted by the issues in acquiring semiconductors.

## 5. Labour markets

### a. Current scenario




Source of data: EUROSTAT (lfsq_egan22d)
Employees in the MET Industry (Sectors 25 – 30, 32&33*); AGE: 15-64; Million; EU27

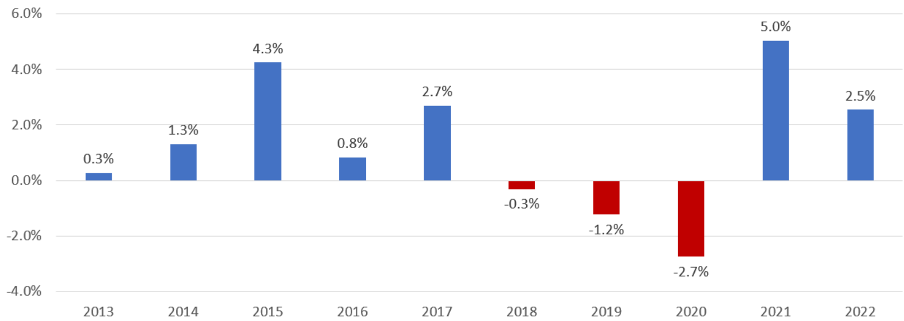
One of the shining lights of the MET industries is our employment figures. The latest data from 2022 shows that our sector has managed to keep the number of employees stable relative to the sharp drop in production during the corona-crisis. It currently stands at just over 17 million direct employees. About half of the subsectors which make up the MET sector have seen an increase in employment, with the other half seeing a decrease, most notably in the automotive sector.

Having said that, the MET industries are facing the double and increasingly aggravated challenge of labour and skills shortages. Whereas skills shortages and high vacancy rates have been an issue for the MET industries for many years, labour shortages are more of a recent phenomenon. Despite low growth and a challenging business climate, the labour market remains tight and vacancy rates remain high. With current vacancy rates in the MET sector at approximately 360,000, this is causing a huge drag on production and innovation. However, this is counterintuitive, as we are in a weak business cycle period. In the past, these periods have been correlated with a weakening of pressure on the labour market. Even with the corona-crisis and the war in Ukraine, structural vacancies are at record highs, well above historical averages. Labour shortages are due to a combination of economic and structural factors including the current demographic challenges facing developed economies and as a consequence of a large group of active workers close to retirement (the baby boomers) or workers benefiting from early retirement schemes. All these elements reduce considerably the available pool of workers.

The issues linked to the labour market situation, and in particular to the current shortages of labour, are so pressing and challenging that they should be looked at as a priority for all: EU and national policy makers, as well as companies, education and training providers, industry etc. As labour often represents the largest cost for MET companies, the tightness of the labour market is a key factor in their competitiveness. While there has been some loosening in some sectors of the economy, where we see that job vacancies have stabilised, they remain significantly above their long-term average.

In order to deal with this situation, policymakers must put in place measures to ensure we have adequate labour activation in the economy, including better matching of those inactive on the labour market with available vacancies. Furthermore, we must tackle the challenge of productivity. Above all, we need to work smarter in processes and in value creation, with the help of digitalisation and many of the solutions that our industries offer.

However in the MET industries, the corona-crisis in 2020 intensified the decline in productivity which was caused by a low level - and partly a decline - of MET production and increasing employment on the other hand. The productivity recoveries shown in the graph for 2021 and 2022 have occurred due to base effects. Higher productivity is essential for the international competitiveness of the MET industries. In order to enhance productivity growth, governmental and private investments in the EU must be increased.



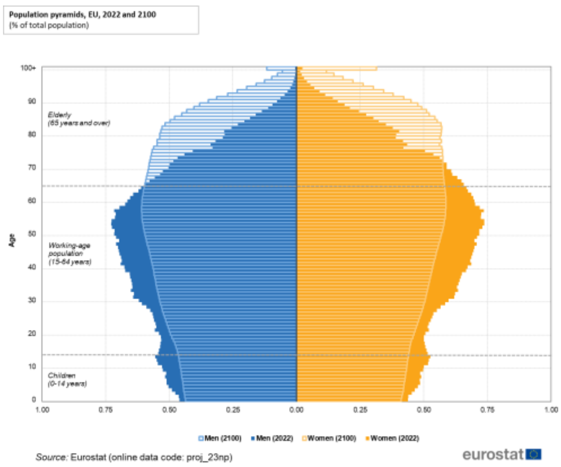

Source of Data: Eurostat (short term business statistics)

Changes of Productivity year-on-year of MET Industries; Calculation based on annual change rates of production and annual change rates of hours worked; EU27

### b. Demographic challenges

Developed world economies have been experiencing low birth rates for many generations.

As economies urbanise and modernise, birth rates drop, however, people also start living longer. All of these factors affect the population pyramid. When we look at the EU, we see in the graph the population pyramid from 2022, and the predicted population pyramid in 2100.




According to the world bank, the working age population of the EU peaked at around 296 million in 2009 and has dropped since that to around 286 million in 2022.

This is why it is fundamental that proper policies are put in place to deal with the EU's population challenge. Only a well-planned and coordinated strategy with a combination of European and national measures addressing migration, skills, employment and labour market issues will enable the European MET industries to address the challenge of labour shortages.

## 6. Key figures and statistics

### a. Production volume

Industrial production growth has stalled worldwide. The volume of production in the MET industries seems to be stagnating, or in some cases shrinking, despite turnover increasing. Turnovers have increased, this is mainly thanks to price increases and partly due to increases in sales. Investment in green technology, such as batteries, is ramping up substantially in a number of countries which is affecting production volumes.

### b. Investment

#### i. Current scenario

The current economic scenario is weighing heavily on the investment decisions of MET companies. We are seeing business investment being hampered by tightening financial conditions and economic uncertainty. This is a worrying sentiment as the important investments needed to realise the green and digital transition are massive and must begin in earnest. In this light, policymakers should consider taking further measures to improve the investment conditions in the EU. This includes providing breathing space on regulatory and reporting requirements for companies.

#### ii. Longer-term investments

Is the EU an attractive place to invest and do business in the longer term? This is unfortunately a question which needs to be raised. Part of the reason for this question is misplaced regulation. Regulation is created to achieve an aim: when it comes to Ceemet's remit, the protection of workers or the protection of the environment. However, too much regulation can reduce the possibility of companies to do business, decrease competition, investment and generally slow the whole economy. In recent years, the EU has been regulating at an astounding pace. Initiatives such as the better regulation toolbox, the one in one out principle, and others are to be welcomed, however any success they have is questionable.

Legislators must break down the barriers to European companies really operating across borders and therefore increasing in size and competing with their international competitors. This will further foster innovation within companies when they must really compete on an EU market. Historically, in the 1970s and 80s, European share of world GDP was around 30%, today it is less than 15%. This decline in European economic might cannot be allowed to continue. One way to counter this decline is to make it easier for companies to operate with ease in multiple EU countries, facilitating them to grow in size and really compete internationally. Moreover, further facilitating the mobility of EU workers goes hand in hand with this approach.

This is not to talk about the higher longer-term energy prices in comparison to our competitors and the EU's response to the US IRA, which while large in scale, has its limitations. These factors must be considered by EU legislators as they are imperative for attracting investment to the EU in the longer-term.

## 7. A multitude of downside risks exist

### a. Possible further turbulence in the banking sector

We have seen the worrying situation in recent months which unfolded in the financial sector in Europe, and globally, and this sector is likely to face further problems. It would appear that the challenges facing this sector are, at least for now, not becoming systemic. Current banking troubles are concentrated on particular banks with specific issues, undermining trust in a few institutions, rather than the system as a whole. However, the continued uncertainty, could have a knock-on effect for companies and households worsening the cost of borrowing. It will also lead to tightening of credit conditions, which is likely to hamper economic activity in 2023.

### b. Any further escalation in Russian aggression in Ukraine

In addition to the problems in the financial sector, the economic outlook is clouded by the possible escalation of Russia's war of aggression in Ukraine. This remains one of the most unpredictable aspects of the next 12 months. The same holds true with regard to the current situation in the Middle East. However, what is certain is that risks to the economy in this context remain high, and it is best to be prepared for negative geopolitical consequences going forward.

### c. Increased unilateralism

The economic model which has underpinned the global economy for the last decades has been one of multilateralism. Spearheaded by the Western world, this created some of the most prosperous times in our histories and has lifted millions out of poverty. However, this has been under threat for some years now with unilateralism on the rise in some regions. This is particularly evident in the relationship between the US and China, with the EU opting for its multifaceted policy approach towards China.

The benefits of globalisation cannot be overstated for the MET industries. The idea that globalisation seems to be losing ground in some countries is a dangerous sentiment. MET companies rely on globalised supply and value chains to deliver products, services and jobs in Europe. This coupled with the race to subsidise industries, leading to a lack of competitiveness, is creating a double challenge for MET companies.

## 8. Conclusion

There is no getting away from the fact that things are tough for manufacturers. Certain subsectors within the MET industries are continuing to perform badly and, while we are seeing resilience in some countries and some subsectors. The overall news is not good.

Order books, which have been full to the point of causing backlogs, are now starting to empty. Business sentiment is trending down, with investments suffering as a result. We continue to face many challenges. We are seeing persistently high inflation, vacancies at record highs, demographic challenges alongside the challenge of doing business burdened by too much regulation. We also face a multitude of downside risks. Uncertainties in relation to energy prices, ongoing geopolitical tensions and increased unilateralism are weighing heavily on MET manufacturers.

However, every cloud has a silver lining. For the MET industries, that silver lining is our latest employment data. MET manufacturers have managed to keep employment stable at just over 17 million. We still have a chronic lack of labour and skilled workers, and a vacancy rate above 2%. However overall employment figures remain strong. While the news is generally not positive, it is important to note that supply chain disruptions have all but dissipated. The EU, while regulating at an astounding pace, has also put in place some solid initiatives to help businesses through challenging times. Despite strong economic headwinds, our sector can remain resilient with the right supports and a decrease in administrative burden.

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### About Ceemet

- Ceemet represents the metal, engineering and technology-based industry employers in Europe.
- Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.
- Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.